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January 13, 1958

Mr. John H. Crider
Deputy Director of Information
Committee for Economic Development
444 Madison Avenue
New York 22, New York

Dear Mr. Crider:

Following a talk with Bill Foster, I again reviewed my notes and decided that it was wise to maintain the original position that my remarks should be off the record for the purposes of your report of the meeting. I suggest that we retain the first six lines of page five, and then make the following statement:

"Mr. Dulles then gave an off the record discussion of Soviet developments in the industrial and military fields, with particular reference to guided missiles and other modern military weapons, and to Soviet economic and subversive penetration in the uncommitted areas of the world."

Meanwhile for your own records, but not for reproduction or dissemination, I enclose a corrected copy of my remarks which you may retain in the C.E.D. files.

I regret the delay in answering your inquiry. This is due to my absence from Washington during the opening days of the year.

Sincerely yours,

Allen W. Dulles

Allen W. Dulles
Director

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ALLEN W. DULLES: Don, Ladies and Gentlemen: Possibly you should have had the cocktails before and not after the first of the two keynote speeches.

I am really very deeply honored at having been asked to be with you today. I have long followed the work of the CED, and I have always admired it.

I propose, as suggested by those who invited me, to speak quite informally from a few notes that I have here.

It is encouraging these days to hear a kind word for Intelligence. From time to time I get a little irked at having to bear the brunt of the charge of failing to report practically every development that occurs in the world. I can't get up and say, "Gentlemen, we reported on that faithfully and fully." Sometimes, and quite often, this would be true and sometimes not. I have never computed what our batting average is, but it is not bad, and it is not bad particularly in the field that is interesting us today.

I can say, however, that in the years I have been in this work -- and I have now been in Washington at this job either as Deputy or Director of Central Intelligence for about seven years, - I have found a growing recognition of the essential importance of Intelligence to the policy-making function, and I have found a growing willingness on the part of the

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policymakers to listen to Intelligence, to seek Intelligence, and to be
guided by it.

When they are not guided by Intelligence it is very largely due to
the fact that we didn't get the Intelligence before the policy-makers with
the right emphasis and at the right time.

Looking back over the recent Soviet development of their guided
missile program, Intelligence has a pretty good record. But I don't think
we succeeded in getting over to the policy-makers the whole impact of
that program. I hope to be able to improve performance in the future
because it is not enough merely to report day by day particular events as
they occur in the world. Somebody must pull that intelligence together
and put it forcefully before the policy-makers so that they may reflect it in
their actions.

Turning to the subject that you have assigned, - and I think, looking
back, as Don said, it took a good deal of prescience to have chosen a subject
as pertinent as the one you have given to us, "The Competitive Struggle
Between American Enterprise and Soviet Communism," - I shall start out
by saying that I think it is a fallacy for us to assume that free enterprise
necessarily and inevitably will out-produce in all sectors a state whose
economy is controlled by a Fascist or Communist type of state dictatorship.

We often tend to fall into that error, - the idea that inevitably our
system, the free enterprise system will come out on top. Naturally,
I believe in the free enterprise system, with all my heart and soul, but
we must look facts in the face.

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In the days before World War II, there were sad mistakes made

in Britain and other countries in failing properly to appraise the German advance in the field of aviation. It was partly because of the type of government that Germany had under Hitler, a government that the West rightly despised - that we felt there were more shortcomings in their economic development and military accomplishment than there really were.

As we look back at our attitude toward Japan, when we entered the war in 1941, a good many felt that we would not meet the type of resistance that we did meet.

The issue, as I see it, is the objective and the goal of free enterprise and where free enterprise puts its emphasis as contrasted with state-controlled enterprise. It is natural and proper, under normal conditions, that free enterprise should concentrate on the development of what the people need to improve their livelihood and to raise the living standard.

State-controlled enterprise on the other hand concentrates on those goals that are fixed by dictatorial leaders. These goals come first and what the mass of the people want comes second. Maybe, as I will develop later, it is hard to carry on that policy indefinitely because some day the people will speak out. They haven't yet reached that point in the Soviet Union.

In the case of dictatorially fixed goals, these usually are military, and that is clearly so as regards the USSR. Therefore, it is no wonder that from time to time we will have the shock of finding that they have

outstripped us in certain areas, particularly military areas, where they put the major emphasis, as for example, the Soviet has done in the missile field.

I'd like to add here parenthetically that in my job I do not make comparisons between the USA and the USSR in such fields, I am not an expert in our own missile program. What I try to do is learn all I can about the Soviet.

In the field of making Intelligence estimates, the need for some impartial net evaluator is obvious. Intelligence should be responsible for giving the status of the Soviet Union in a particular field and this should then be contrasted with expert advice as to where we may be in that field. The policymakers are entitled to have such net evaluations and to have them on the basis of the most competent authority and at regular intervals.

If the USSR is ahead in missiles, I don't think there is any reason to seek some mysterious and esoteric answer. The fact is that since 1945 they have spent here more manhours than we and under highly competent scientific and technological leadership with the necessary tools and equipment. Under those circumstances it would be understandable if they were ahead of us today. As I said a moment ago, history is full of examples where the well-fed, well-clothed, high standard of living countries failed fully to comprehend the extent and nature of external threats. You can find this in the Greek and Roman days and right on down to England and France before World War II, and in our own history.

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And now we have the shocks that have come from sputniks and guided missiles in the hands of others. I may say that Intelligence was not surprised at the timing of putting the Sputniks into orbit. We estimated that with the capabilities and the priorities of the Soviet they would do it sometime this year. That was a fairly well accepted possibility. What was not anticipated fully was the shock that this would be to the country and to our Allies.

Maybe in the long run it is fortunate that some years ago we had the Korean War to arouse us to our own problems and to serve as a clear alert of Communist ambitions and potentials. Maybe in a few years we will look back on the sputniks and bless our stars that they were sent up in 1957 and not held back until 1959.

It is hard to get over certain misconceptions about the strength and capabilities of the people of the Soviet Union. Many of us still look on them as peasants and mushiks. We have so low a regard for their form of government and their oppressive police-type state that we rather assume that probably they are not very successful in other activities. It is hard for us to see how a state organized as the Soviet state is can get the best in work and accomplishments out of their people. Only those who have studied it deeply, as have most of you, can realize and appreciate the strength of their development.

In the Intelligence community we assume, and for some years have assumed, that what we in the Western World can do in science and technology the Soviet Union can also do. As a corollary to this, as I said before, if they put more time, effort and resources in a given field, they will do better than

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we in that field. It is, of course, a great advantage, as I am told by all scientists, to know that a certain thing is doable, the Soviet Union has profited by this in many fields, particularly in the nuclear field. Their espionage also played some role here. We can profit in the field of missiles by a study of the Soviet technology and progress.

Now for a moment I wish to consider the basic Communist assumptions, and I will keep watch of the time so that I don't cut you off, Clarence.

MR. RANDALL: Carry on.

MR. DULLES: What are the basic Communist assumptions? They believe fundamentally that capitalism and free enterprise and the Communist-Socialist dictator type of organization are incompatible and that some day a showdown will come unless meantime they win by attrition and subversion. If the conflict comes, they propose to have the tools to win in that conflict.

I don't think they are looking for war at the present time or in the immediate future. Until they feel much better prepared than they are today, they will preach coexistence in order to have an adequate period to complete their own preparations.

If during this period they gain a massive superiority over us in any crucial field they will feel that they can press their advantage diplomatically with ever-increasing boldness. And even if there is a nuclear delivery stalemate, which is one of the possibilities we foresee, they would hope that because of their particular type of government, they would have a negotiating

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advantage because of their willingness to use tactics of blackmail.

In order to provide a basis for this policy they have concentrated on three main lines, (1) building up their industrial strength, particularly heavy industry; (2) concentrating on gaining superiority on a selective basis in the military field, and (3) economic penetration and subversion particularly in the underdeveloped areas of the world.

Some military phases they apparently by-pass. They have no aircraft carriers. And now we are somewhat puzzled but interested in the statement made by Khrushchev that aircraft soon will be museum pieces. We haven't found them as yet putting theirs in any museums. They are carrying along in the aircraft field although at a rate that is slower than we had anticipated two or three years ago; in particular they are not building as many heavy bombers today as we thought they would be building and as they could build if they were putting major emphasis there.

Of course, no state can put major emphasis in every field, and the Soviet are undoubtedly limited, just as we are, by having to make certain choices.

It is forty years since the Communist take-over in Russia. Almost half of this period was occupied by external and internal political strife after World War I and by the years of World War II and the postwar reorganization. Thus they have had only about twenty-five years to consolidate their industrial strength. They took the United States as a model and they still are borrowing all that they can from us particularly in the heavy production and industry field, borrowing techniques rather than buying goods.

By channeling a large share of their total effort into heavy industry and into their investment base they have achieved a high rate of growth here but at a cost, of course, to the Soviet consumer. Today the Soviet gross national product, we estimate, is less than forty per cent of ours, but of that total Soviet defense takes about fifteen per cent compared to only nine per cent in the United States.

Further, owing to the relative efficiency of the Soviet military goods industries, the low pay for military conscripts, and the moderate cost base for many commodities that go into their military machine, we estimate that the total dollar value, if it were translated into dollars, of their defense expenditure is roughly equal to ours. They are accomplishing this on a basis, as I said, that is barely forty per cent of ours today.

If we put in a comparable defense effort in terms of proportion of G. N. P. -- we would be adding almost \$20 billion to our own defense budget.

One can ask, how long are the Soviet peoples going to tolerate this at the expense of their standard of living? It is not easy to answer. We must recognize that there has been some improvement in the Russian standard of living over the past ten years, and further improvements are expected over the next five years as a result of a shift in the planned investment, to some small extent, from heavy industry to agriculture and housing.

Recently they have been forced to divert a good bit of their manpower and resources to improving their rather dilapidated agricultural position.

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That is one of the Achilles' heels of the Soviet Union.

Turning now to their military accomplishment; in 1946 the Free World had a monopoly in long-range aircraft and in the nuclear field, electronics and jet propulsion. Today, eleven years later, Soviet technology is approaching ours in these fields, although our nuclear stockpile still exceeds theirs, we believe. It has probably outdistanced us in certain of these respects.

In the guided missile field they started in by taking over the German assets. Beginning shortly after the war end they have followed a planned program in the missiles field and have put a major emphasis on that. Starting with the German V-2 of about 150 to 200 mile capability, they have developed their techniques until today we must recognize that in the short and intermediate fields they have done extremely well. Now they have started testing the longer-range missiles.

In aviation they are at somewhat of a disadvantage because from overseas bases we could reach their heartland with types of planes which they would have to expend on oneway missions if they wanted to use them against us.

It is probably for this reason that they are concentrating on the guided missile as their weapon of the future although, as I said, they are not yet neglecting their bomber position and have a very large and effective intermediate bomber of the same general type as our B-47 and a certain number of heavier bombers.

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In addition to their industrial base and their military structure, there is today a third main element in the competitive struggle of Soviet Communism versus the Free World; namely, the economic, political and subversive penetration particularly in the Middle East, South and Southeast Asia and even parts of this hemisphere south of the Rio Grande. Long before Sputnik, the people in these areas were tremendously impressed at the transformation which had taken place in the USSR in less than four decades bringing the USSR from a backward country into the position of the world's second greatest power and a leader in the scientific field. The Sputnik has helped that along, of course.

Unfortunately, the lessons of Hungary and of Soviet colonialism don't seem to have seeped down in these areas of the world. The USSR has been quick to realize and capitalize on the situation created by the admiration of some of these backward countries. They have been able to capitalize on it in part because they have been willing to take the raw materials produced by these countries which obviously we can't do. Take Iceland. They made a penetration in Iceland because they buy their fish. We have a plethora of fish. Their position in Egypt has been strengthened by many factors, in part because they take Egyptian cotton. The Sudan has a serious problem in moving its cotton and the Soviets step in there with attractive offers.

The Communist bloc foreign aid does not approach ours in value on an overall basis. They have concentrated on certain countries where they think they can make the most impact, - Afghanistan, Burma, Cambodia,

Egypt, Iceland, India, Indonesia, Nepal, Syria, Yemen, Yugoslavia.

Over the last three fiscal years through '57, the USSR programmed economic aid to these particular countries was slightly greater than our own according to our computation. We estimate that the bloc's aid is about 1.2 billion as against our nine hundred million dollars of aid to these countries. Also in these particular countries they have more technicians. Of course, as I said before, our total program is very much greater than theirs. In fact, over the last three years it was about ten times that of the bloc, but in many countries the bloc doesn't compete with us. They are very careful in the choice of the countries where they put their emphasis.

There is no reason to doubt that the Soviet can continue the three programs I have mentioned; that is, the building up of their industrial base, continuing to make great progress in certain selected military fields, and carrying on foreign economic and subversive program on at least the scale they are doing today. The Soviet will be able, to do this despite the system of government under which these programs are carried on, and the other drains on their economy.

begun ...

They have, however, slowly to modify their system, and that is a truly encouraging feature. They have given more freedom to the scientists and technicians, and in order to build up their economic and industrial base they have instituted a massive educational system. They are educating more scientists today than we are. They have also had to decentralize the control of their industrial machine.

Now I believe firmly that over the years the pressure of this education, the pressures of these scientific and other achievements, the pressure of this decentralization will bring more changes in the Soviet Union. The great problem is whether those changes will go far enough and deep enough and fast enough so that when the time of crisis comes there will be some real check on the dictatorial power of the leaders in the Kremlin.

In conclusion I wish to add a word of warning. We must not let the Sputnik become a Trojan Horse. We should not go missile-mad to the exclusion of adequate defense against other dangers. While looking at the sky, we must not let the Soviet through economic penetration and subversion run away with other parts of the Free World.

I am convinced that we can meet the Soviet threat to the military and subversive. Whether we can do it with "business as usual" is a matter that you can judge better than I.

Thank you very much.

CHAIRMAN DAVID: I just asked Mr. Dulles if he would be willing to answer questions which I know some of you may have. So if we may take perhaps five minutes for that, I would like, Mr. Dulles, to ask you this: How about the near bases of Russia against us; that is the Russian submarines off our coast? Will you comment on that?

MR. DULLES: Yes, I am glad you brought that up because I probably should have mentioned that in my talk.

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The Russians have a large submarine fleet about 500 in all. A good percentage of them are the modern snorkel-type submarines, and we believe that these submarines could be equipped with the air-breathing type of guided missile. We do not believe that as yet they are equipped for the true ballistics missile. That is a matter on which they are undoubtedly working. The submarines do represent potential floating bases which joined with a nuclear attack would be a very serious increment to their total nuclear power.

CHAIRMAN DAVID: Stay right here because there may be some other questions.

QUESTION: Mr. Dulles, how do you evaluate the effect of our own integration problems in this struggle for power?

MR. DULLES: What do you mean, the Southern problem?

QUESTION: The Little Rock problem.

MR. DULLES: The Little Rock problem. Well, obviously that has had some effect on the public opinion situation abroad, but not as much as I had anticipated. However, anything of that nature that tends to show division in this country is a disappointment to our friends and is an asset to our potential opponents.

MR. PETERSEN: Will you comment on the relative power position of the military and the Communist Party in the Soviet?

MR. DULLES: Howard, we are satisfied that today the Party is on top. Whether it will remain there forever is hard to tell. The Soviet military, as you know, have not mixed in politics, but politics has mixed

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in the Soviet military establishment. And I am rather inclined to think that they were a little apprehensive that the Soviet Army was getting too independent of the Party, and that was one of the reasons for the departure of Zhukov. But at the moment the Party is supreme but is keeping a weather eye out for developments in their military forces that might threaten its position.

QUESTION: Mr. Dulles, would you be willing to say how long ago we knew that the Russians would be able to put up a sputnik in 1957?

MR. DULLES: Well, Intelligence does not claim to know absolutely, but the estimate that we made was that they would have the capacity to do it during the present year. That was estimated about a year before the event.

CHAIRMAN DAVID: Thank you very much indeed, Allen. We are most appreciative of your coming and giving us your comments.